

VZCZCXRO8395
RR RUEHMR RUEHRN
DE RUEHKI #1639/01 2971342
ZNY CCCCC ZZH
R 241342Z OCT 06
FM AMEMBASSY KINSHASA
TO RUEHC/SECSTATE WASHDC 5024
INFO RUEHXR/RWANDA COLLECTIVE
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RHEBAAA/DEPT OF ENERGY WASHDC
RUEAIIA/CIA WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE
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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 001639

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E.O. 12958: DECL: 10/23/2016

TAGS: [EPET](#) [ENRG](#) [ETRD](#) [EINV](#) [ECON](#) [CG](#)

SUBJECT: CROSSING THE UGANDAN BORDER: PETROLEUM EXPLORATION

REF: A. KINSHASA 1364

[1](#)B. KAMPALA 981

Classified By: EconOff W. Brafman for reasons 1.4 b/d.

[1](#)1. (U) Summary. The GDRC and Cohydro, DRC's petroleum parastatal, have signed a production sharing agreement with two foreign petroleum companies for blocks on the DRC's Lake Albert border with Uganda. These blocks are adjacent to exploration blocks on the Ugandan side of the border. However, the GDRC's final approval is pending. End summary.

[1](#)2. (U) September 13, Canadian Heritage Oil (Heritage) and U.K.- based Tullow Oil announced a production sharing agreement with the GDRC for exploration rights to Blocks I and II of the Graben Albertine reserve, which borders Uganda. The blocks comprise roughly 4000 square miles and include portions of Lake Albert and onshore areas. (Note: Graben Albertine, with five blocks total, is part of the DRC's Rift Region of potential petroleum reserves. The Rift's other area consists of the three blocks of Graben Tanganyika, which includes portions DRC's territorial waters in Lake Tanganyika plus surrounding onshore areas bordering Burundi and Tanzania. End note.) Tullow holds a 48.4 percent interest, Heritage 39.6 and Coydro (the DRC's petroleum parastatal) 12 percent. Although this eastern Congo region is considered to be one of the DRC's three potential petroleum zones (reftel A), very little exploration has occurred to date.

[1](#)3. (U) If exploration proceeds in DRC and Uganda, it would be the region's first cross-border formal sector project. Heritage's DRC blocks are adjacent to onshore/offshore exploration blocks in Uganda held by Heritage, Tullow Oil and Australian company Hardman Resources (reftel B). In press reports, Heritage's then-CEO and Chairman was quoted as saying that his company's strategy is to create a cross-border "hydrocarbon province" with its blocks.

STUMBLING BLOCKS

[1](#)4. (SBU) The project is not yet certain, however, because the World Bank (WB) and IMF have asked the GDRC to delay approving any new extractive industry transactions at least through the end of December 2006, when an elected government will have been installed (reftel A). Hence, the necessary presidential approval is still pending. Indeed, the Ministry of Energy's Director of petroleum projects told EconOff that the Minister of Finance approved the transaction over the then-Minister of Energy's objection. (Note: The Energy Vice-Minister, who belongs to a different political party than his Minister, signed this deal while the former Minister

was campaigning for a National Assembly seat. End note.)

15. (SBU) The Ministry's petroleum project Director (Joseph Pili-pili) said the agreement's second problem is that Heritage did not agree to join the Ministry-organized petroleum assessment consortium, formed between Fusion Petroleum Technologies (Fusion) and energy companies interested in investment potential in the DRC. Fusion, a U.S. company, signed an agreement with the Ministry of Energy in July 2005 to carry out a petroleum reserves' assessment for the GDRC, with the goal of creating a reliable database. Each consortium member must pay USD 500,000 for data access, but Fusion will not begin research until it has about ten members, giving it sufficient working capital. The Ministry is pushing energy companies that enter into deals with the GDRC to join the consortium, ostensibly so that research can proceed as soon as possible.

16. (C) A third potential problem with the project could be President Kabila's supposed view of Heritage. According to Pili-pili, Heritage's founder, Tony Buckingham (also a co-founder of the now-defunct Executive Outcomes), is a suspected arms trafficker and friend of Ugandan President Museveni's son. As a result, President Kabila reportedly put a stop to negotiations with Heritage for Graben Albertine blocks in 2001-2002. The GDRC then launched a tender offer for the Albertine blocks. Heritage bid, and to respond to the GDRC's continuing concerns about Heritage, Tullow was brought into the deal. Pili-pili told EconOff that Tullow and Heritage met all the DRC's legal conditions for entering into the transaction and that, the President will therefore have to approve it. However, it is not clear when this approval might occur, given the IMF/WB request discussed above.

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COMMENT

17. (U) If exploration on both sides results in a discovery of recoverable reserves, the project could indeed lead the way for the type of cross-border cooperation that the region needs. Both governments would need to ensure that their rights and duties are clear, however, or this project could conversely become another point of cross-border contention. End comment.
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